

# Federal Fiscal Programs

**T**HE budget submitted to Congress last month is intended to provide a significant stimulus to the economy in calendar 1972. By accepting a large full-employment deficit in the first half of this year, the administration hopes to spur the economy sufficiently to reduce unemployment to about 5 percent by the end of the year.

The budget projects a large increase in expenditures in the first 6 months of calendar 1972 followed by a much more moderate gain in the next 12 months, i.e., in fiscal 1973. No major new spending initiatives, other than a renewed call for revenue sharing, are proposed for fiscal 1973. An increase in social security taxes is proposed but other than that, tax rates—which have been reduced considerably in recent years—will remain essentially unchanged after the current quarter.

## Unified budget outlays and receipts

The unified budget projects an increase in outlays of \$9.6 billion in fiscal 1973, the smallest advance since 1969 and considerably below the record \$25.2 billion rise estimated for the current year (table 1). Civilian programs account for almost all—\$9.4 billion—of the 1973 increase. However, new budget authority for defense spending, an important indicator of future outlays, is proposed to advance by over \$6 billion. Outlays for the social security and medicare programs are to rise \$6.9 billion, including the effect of proposed legislation raising benefit levels. General revenue sharing contributes \$2.8 billion to the 1973 increase in outlays. Taken together, outlays for all other programs are essentially unchanged from 1972, with increases in such programs as education and manpower, health, and housing offset by lower net outlays for

natural resources and by declining unemployment benefits.

Receipts are estimated to rise \$23 billion in fiscal 1973, reflecting the strong economic expansion assumed in the budget projections. Receipts under existing legislation are estimated to increase \$22.4 billion, despite the impact of recent corporate and personal tax reductions, while proposed legislation, mainly affecting social security financing, would add \$0.6 billion. The budget projections of receipts are based on an assumed increase in GNP from \$1,047 billion in calendar 1971 to \$1,145

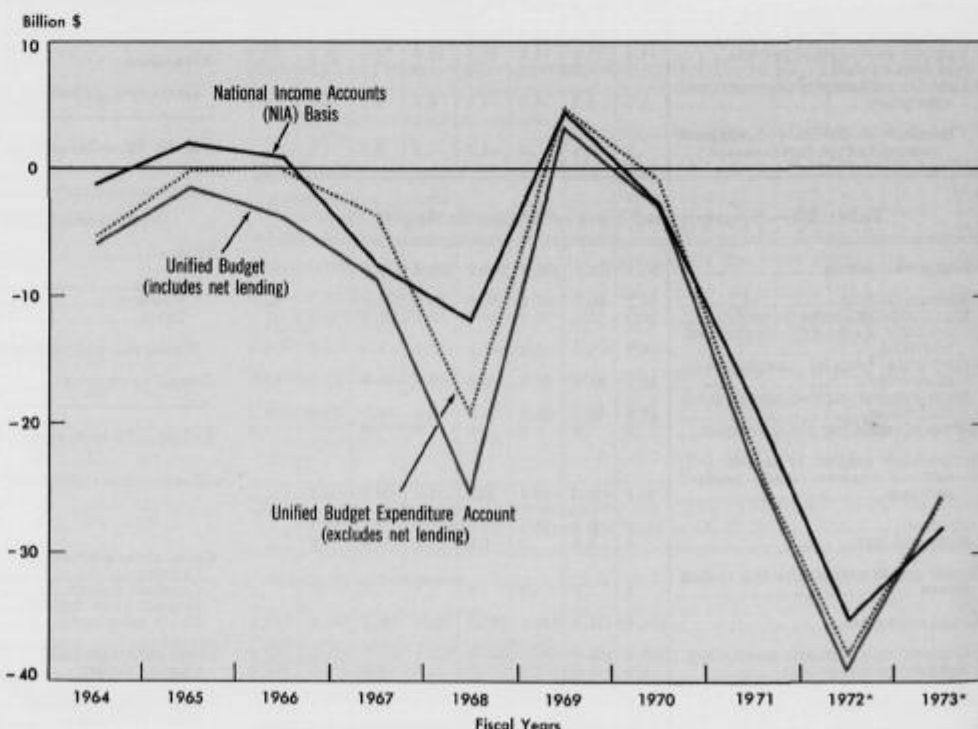
billion in calendar 1972, a rise of nearly 9½ percent compared to last year's advance of 7½ percent. Personal income is projected at \$924 billion, up \$67 billion. Corporate profits before taxes are estimated to increase \$14 billion to \$99 billion. The large profits increase reflects the rise in the profits share of national income that generally occurs when the economy moves toward greater utilization of capacity.

Since the increase of receipts exceeds the increase of outlays, the deficit in the unified budget is projected to decline \$13.3 billion—from \$38.8 bil-

CHART 7

## Federal Fiscal Position

Deficits estimated for fiscal years 1972 and 1973



\*Estimates from "The Budget of the United States Government, 1973."

U.S. Department of Commerce, Bureau of Economic Analysis

**Table 1.—Federal Government Receipts and Expenditures, Fiscal Years 1971-73**

[Billions of dollars]			
	1971 actual	1972 Estimates	1973 Estimates
<b>Unified budget</b>			
Receipts.....	188.4	197.8	220.8
Outlays.....	211.4	236.6	246.3
Expenditure account.....	210.3	235.6	246.5
Loan account.....	1.1	1.0	— .2
Surplus or deficit (—).....	—23.0	—38.8	—25.5
Full-employment surplus or deficit (—).....	4.9	—8.1	.7
<b>National income accounts</b>			
Receipts.....	194.0	202.8	227.9
Expenditures.....	212.4	237.8	255.9
Surplus or deficit (—).....	—18.4	—35.0	—28.0

Sources: Office of Management and Budget and BEA.

lion in 1972 to \$25.5 billion in 1973. The deficit now estimated for fiscal 1972 is considerably larger than the deficit of \$27½ to \$28½ billion estimated by the administration in September 1971. The new estimate incorporates both lower receipts and higher expenditures (table 2). Receipts are lower by \$6 to \$7 billion, mainly because of lower incomes and profits. The upward revision in expenditures—about \$4 billion—is the result of several factors, including higher levels of unemployment benefits and congressional action raising Federal pay.

### Smaller decline in NIA deficit

Under the concepts used in the Federal sector of the national income accounts (NIA), the budget deficit declines \$7 billion from \$35 billion in fiscal 1972, to \$28 billion in fiscal 1973. Federal receipts and expenditures as measured in the national income and product accounts for the fiscal years 1971-73 are shown in table 3.

The shift to a smaller deficit in fiscal 1973 is less pronounced on the NIA basis than in the unified budget because the increase in NIA expenditures—\$18 billion—is nearly twice that in unified budget outlays. The larger increase in NIA expenditures is mainly the result of the following factors: (1) deliveries as recorded in the NIA are projected to lag cash payments recorded in the budget by \$¼ billion in 1972, but to exceed them by \$3 billion in 1973; (2) financial transactions, which are ex-

cluded from NIA, account for \$3.1 billion of unified budget outlays in 1972 but for only \$1.3 billion in 1973, when asset sales are projected to increase; (3) oil bonus receipts, which are netted against unified budget outlays but excluded from the NIA, increase from \$0.5 billion in 1972 to \$1.8 billion in 1973; and (4) budget outlays, but not NIA expenditures, are reduced in 1973 by the transfer of over \$1 billion from a deposit fund excluded from the budget.

### Budget path on the NIA basis

On the basis of the budget document, the Bureau of Economic Analysis estimates that the NIA deficit in calendar 1972 will be about \$35½ billion, compared with a deficit of \$23 billion tentatively calculated for calendar 1971. The 1972 estimate rests on a projection that expenditures will rise \$29 billion, receipts \$16½ billion. The net effect of tax changes will lower calendar 1972 receipts about \$4 billion; gross revenue growth excluding the effect of tax changes is thus projected at roughly \$21 billion.

If budget projections are realized, the actual NIA deficit will jump from about

**Table 2.—Revisions in Fiscal Year 1972 Unified Budget Receipts and Outlays From September 1971 to January 1972**

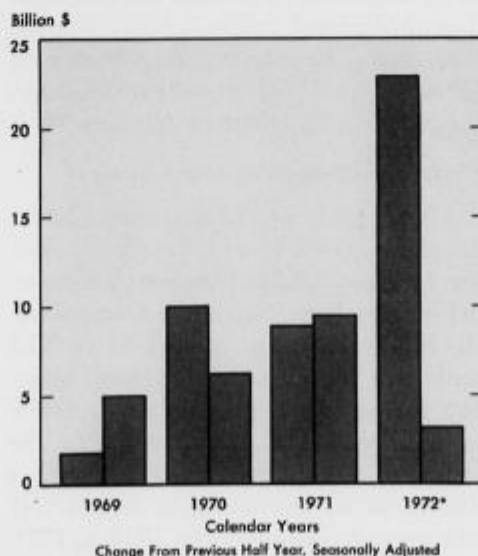
[Billions of dollars]	
<b>Receipts</b>	
September 1971 estimate.....	204.0 to 205.0
Lower level of incomes and capital gains.....	—4.9 to —5.9
Elimination of import surcharge.....	—1.5
Deferral of social security rate increase.....	—1.0
Other reductions.....	— .2
Revenue Act of 1971.....	1.4
January 1972 estimate.....	197.8
<b>Outlays</b>	
September 1971 estimate.....	232.4
Unemployment benefits.....	1.6
January 1972 pay raise.....	1.1
Farm price supports.....	.6
Medicaid and public assistance.....	.5
Other increases (net).....	.4
January 1972 estimate.....	236.6

Source: Office of Management and Budget.

\$26½ billion in the second half of 1971 to over \$39½ billion (seasonally adjusted at annual rates) in the first half of calendar 1972. An exceptionally large increase of \$23 billion is projected in expenditures. Grants-in-aid are to rise more than \$10 billion (annual rate), largely because of general revenue sharing (\$4½ billion) and an advance payment (\$2 billion) of public assistance grants. Purchases of goods and services also increase sharply—about \$8 billion—with pay raises accounting for about one-half of the advance. Among the other expenditure categories, subsidies will be boosted by rising agriculture payments, and transfers will be increased by recent legislation extending unemployment benefits. Net interest payments are expected to decline.

Receipts are projected to increase about \$9½ billion (annual rate) in the first half of calendar 1972, with one-half of the gain attributable to present and proposed statutory increases in earnings subject to the social security tax. Personal taxes will change little because increases resulting from growing incomes, from upward adjustment of withholding schedules, and from high final settlements resulting from last year's underwithholding are offset by recent tax reductions. Elimination of the import surcharge in December 1971 lowers indirect business taxes.

CHART 8  
**Federal Expenditures (NIA Basis)**  
Surge expected in first half of 1972



\*Estimate by BEA  
U.S. Department of Commerce, Bureau of Economic Analysis

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**Table 3.—Federal Government Receipts and Expenditures, NIA Basis**

(Billions of dollars)

	Fiscal Years			Calendar 1971			
	1971 actual	1972 estimate	1973 estimate	I	II	III	IV
	Seasonally adjusted at annual rates						
<b>Federal Government receipts.....</b>	<b>194.0</b>	<b>202.8</b>	<b>227.9</b>	<b>196.5</b>	<b>197.7</b>	<b>197.8</b>	.....
Personal tax and nontax receipts.....	87.7	91.3	98.3	86.6	87.6	88.8	93.0
Corporate profits tax accruals.....	32.5	33.0	40.7	34.1	34.8	33.2	.....
Indirect business tax and nontax accruals.....	20.3	19.8	20.7	20.7	19.9	19.7	20.7
Contributions for social insurance.....	53.5	58.7	68.2	55.1	55.5	56.1	57.2
<b>Federal Government expenditures.....</b>	<b>212.4</b>	<b>237.8</b>	<b>255.9</b>	<b>212.7</b>	<b>221.4</b>	<b>224.6</b>	<b>228.6</b>
Purchases of goods and services.....	95.3	103.0	107.0	96.4	96.0	97.6	100.3
National defense.....	73.0	73.3	76.7	72.6	71.4	70.2	71.4
Other.....	22.4	29.7	30.4	23.7	24.6	27.4	28.9
Transfer payments.....	69.9	79.8	87.4	69.6	77.8	78.0	78.1
To persons.....	67.5	77.9	84.5	67.4	75.3	75.3	75.6
To foreigners (net).....	2.4	2.8	2.9	2.2	2.5	2.7	2.6
Grants-in-aid to State and local governments.....	27.0	36.2	40.6	27.0	29.5	30.2	31.6
Net interest paid.....	14.2	13.4	14.8	14.0	13.3	13.9	13.8
Subsidies less current surplus of government enterprises.....	5.9	5.4	6.0	5.8	4.8	4.8	4.9
Less: Wage accruals less disbursements.....	-1	.....	.....	.....	.....	.....	(*)
<b>Surplus or deficit (-), national income and product accounts.....</b>	<b>-18.4</b>	<b>-35.0</b>	<b>-28.0</b>	<b>-16.2</b>	<b>-23.7</b>	<b>-26.7</b>	.....

\*Less than \$50 million.

Sources: "The Budget of the United States Government, 1973" and BEA.

A strong uptrend in economic activity and rapid growth of receipts are expected in the second half of calendar 1972. Expenditures will rise only \$3½ billion (annual rate), resulting in a substantial decline in the deficit. Nearly the entire expenditure increase is attributable to a proposed July increase in social security benefits. Purchases are projected as essentially unchanged from the first half of the year, despite a small (\$½ billion) pay adjustment for military personnel. Grants-in-aid are to decline sharply and interest accruals increase.

The deficit is projected to decline even further in the first half of 1973,

**Table 4.—Full-Employment Receipts and Expenditures Estimates, NIA Basis**

(Billions of dollars, seasonally adjusted at annual rates)

Calendar year	Full-employment receipts	Full-employment expenditures	Full-employment surplus or deficit (-)
<b>1971:</b>			
First half.....	222.0	214.6	7.4
Second half.....	227.7	223.8	3.9
<b>1972:</b>			
First half.....	235.4	244.8	-9.4
Second half.....	246.1	250.1	-4.0
<b>1973:</b>			
First half.....	256.7	257.6	-0.9

Source: Council of Economic Advisers.

when brisk gains in profits and incomes are expected to account for a strong growth of receipts. In addition, social security tax rates are to be raised on January 1, 1973. Expenditures are expected to increase about \$6½ billion above the second half of 1972. A proposed military and civilian pay raise, effective January 1973, adds \$2½ billion (annual rate) to purchases, and extended medicare benefits add \$1 billion to transfers. Interest continues to increase, and grants-in-aid are expected to resume their growth. These advances are partially offset by a decline in subsidies (less the current surplus of government enterprises) largely resulting from a \$1 billion (annual rate) postal rate increase, projected to be effective January 1973.

**Shift in full-employment budget**

Fiscal policy will be more stimulative in calendar 1972 than last year. According to recent administration testimony before the Joint Economic Committee, the full-employment budget on an NIA basis will shift from a surplus of about \$5½ billion in calendar 1971 to a deficit of \$6½ billion in calendar 1972. The swing of \$12 billion contrasts with a decline of about \$2 billion in the full-employment surplus from 1970 to 1971. As shown in table 4, all of the 1972 swing would occur by midyear; thereafter, the

full-employment deficit is expected to decline.

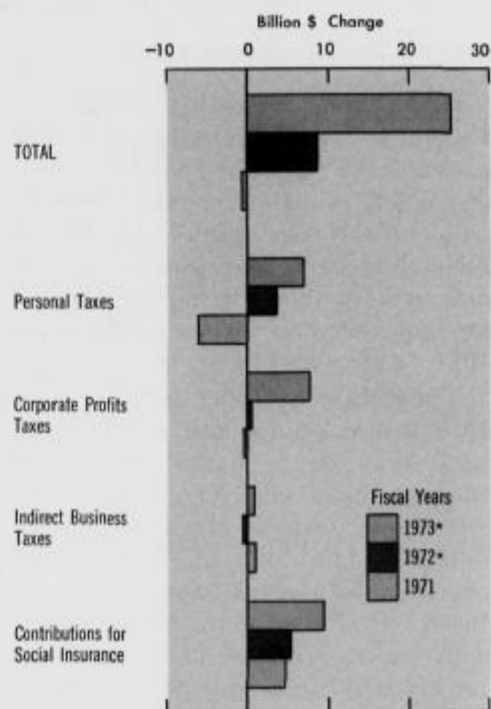
**Fiscal 1973 Receipts**

Federal receipts in fiscal 1973 are projected to total nearly \$228 billion on the NIA basis, an advance of about \$25 billion over the current estimate for fiscal 1972. In the preceding 2-year period, tax reductions and the sluggishness of the economy limited the growth of receipts to about \$8 billion.

NIA receipts, which are recorded mainly on an accrual basis, are projected to increase somewhat more in fiscal 1973 than budget cash collections. Accruals are expected to exceed collections by only about \$½ billion in 1972 but by \$2½ billion in 1973. This widening gap results principally from the projected rapid growth of profits and personal income, a circumstance in which NIA receipts can be expected to grow faster than cash collections.

The projected fiscal 1973 increase in NIA receipts, about 12½ percent,

CHART 9

**Changes in Federal Government Receipts (NIA Basis)**

\*Estimate by BEA

U.S. Department of Commerce, Bureau of Economic Analysis

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would be the largest percentage increase since the gain of 18½ percent in fiscal 1969, when the individual and corporate income tax surcharge was imposed. The projected 1973 increase rests entirely on the rapid growth of economic activity projected in the budget. Higher incomes will account for a gain of \$25½ billion in 1973, while the net effect of tax rate changes is to reduce receipts about \$½ billion (table 5). For fiscal 1972, a \$15 billion increase resulting from higher incomes is expected to be partly offset by a \$6½ billion decline due to tax changes, mainly provisions of the Tax Reform Act of 1969 and the Revenue Act of 1971.

The reduction of 1973 receipts because of tax changes, like that in 1972, is the net result of many factors. The principal causes are revenue reductions resulting from the Revenue Act of 1971 and the Tax Reform Act of 1969, and the absence in 1973 of the speedup of estate and gift tax payments that boosted receipts in 1972. These revenue decreases more than offset increases in social security taxes under present and proposed legislation.

#### Personal taxes up \$7 billion

Personal tax and nontax payments are projected at \$98½ billion in fiscal 1973, an increase of \$7 billion. This increase is the net result of a gain of about \$13 billion attributable to higher

income, partly offset by a loss of \$6 billion because of tax changes (table 5).

Tax changes for individuals provided in the Tax Reform Act of 1969 and the Revenue Act of 1971 will cut receipts about \$3½ billion from 1972 to 1973, and the absence of the speedup of estate and gift tax payments will cut receipts another \$1½ billion. Proposed legislation affecting private pension plans and the retirement income credit would lower fiscal 1973 receipts nearly \$1 billion. Other changes designed to increase withholdings and minimize final settlements increase receipts about \$½ billion less in 1973 than in 1972.

Disposable income has already been affected by the tax relief measures enacted in 1969 and late 1971, principally those raising the personal exemption and the standard deduction and eliminating the phaseout of the

low income allowance. Withholding rates were lowered in January and July 1970, January 1971, and January 1972 to reflect changes in the laws. The reduction in withholding payments in January 1972 was much smaller than the reduction in liabilities because withholding schedules were adjusted to eliminate the underwithholding so prevalent in calendar 1971. The adjusted withholding schedules would produce significant overwithholding if taxpayers failed to offset some of the impact by increasing their exemptions for withholding purposes. However, the fiscal 1973 budget does not assume a significant amount of overwithholding.

The amount of nonwithheld payments (net of refunds) is also affected by the changes in the laws, and by the 1971 underwithholding. Final settlements in the spring of 1972 will be

**Table 5.—Breakdown of Changes in Federal Receipts, NIA Basis**

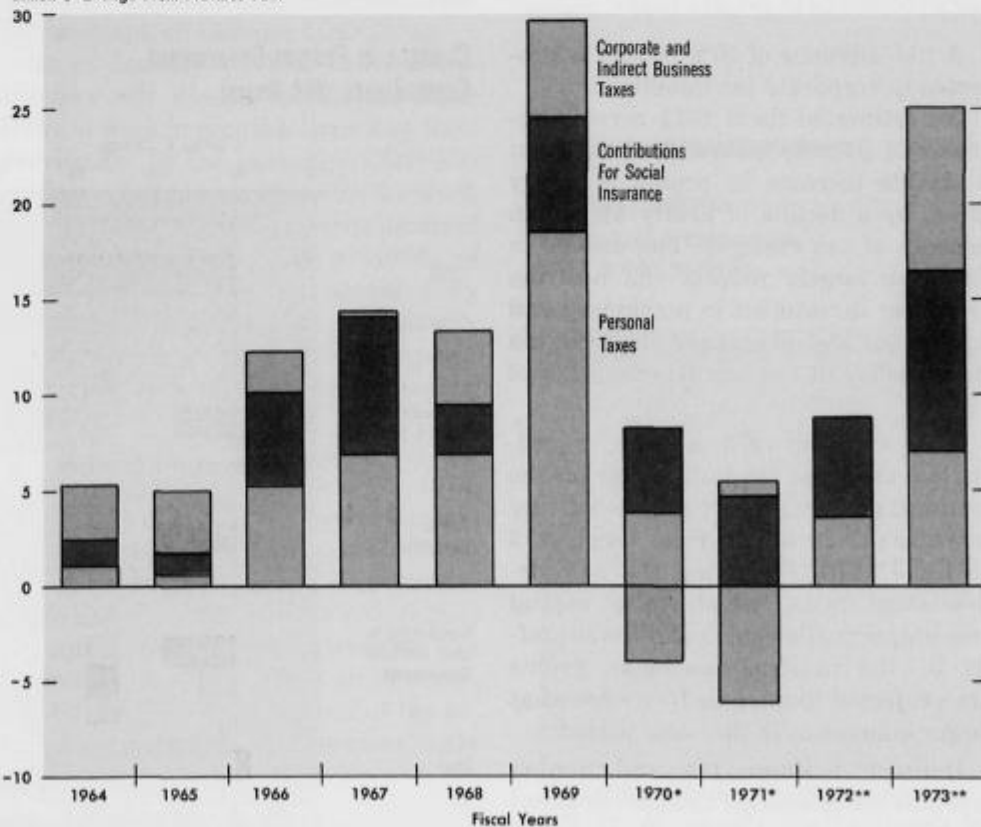
	Change from previous fiscal year		
	1971	1972	1973
<b>Total receipts, NIA basis.....</b>	<b>-0.6</b>	<b>8.8</b>	<b>25.1</b>
Amount due to higher incomes.....	7.5	15.1	25.5
Amount due to tax changes.....	-8.1	-6.3	-4
Personal tax and nontax payments.....	-6.1	3.6	7.0
Amount due to higher incomes.....	3.4	7.4	13.1
Amount due to tax changes.....	-9.5	-3.8	-6.1
Corporate profits tax accruals.....	-.3	.5	7.7
Amount due to higher incomes.....	.7	3.8	8.2
Amount due to tax changes.....	-1.0	-3.3	-5
Indirect business tax and nontax accruals.....	1.1	-.5	.9
Amount due to higher incomes.....	1.0	1.2	1.2
Amount due to tax changes.....	.1	-1.7	-.3
Contributions for social insurance.....	4.7	5.2	9.5
Amount due to higher incomes.....	2.4	2.7	3.0
Amount due to tax changes.....	2.3	2.5	6.5

Source: Estimates by BEA.

#### Federal Receipts (NIA Basis)

Social insurance contributions a major factor in growth of receipts

Billion \$ Change From Previous Year



\*Total net change: 1970, \$4.3 billion; 1971, \$-0.6 billion.

\*\*Estimate

**Table 6.—Taxable Wages and Tax Rates Under Social Security**

Calendar year	Maximum wage base	Combined employer-employee OASDHI payroll tax rate, percent
1960-61.....	\$4,800	6.0
1962.....	4,800	6.25
1963-65.....	4,800	7.25
1966.....	6,000	8.4
1967.....	6,000	8.8
1968.....	7,800	8.8
1969.....	7,800	9.6
1970.....	7,800	9.6
1971.....	7,800	10.4
1972.....	*10,200	10.4
1973.....	*10,200	*10.8

\*Proposed. Present law for 1972 and 1973 wage base is \$9,000; for 1973 tax rate, 11.3 percent.

Source: Social Security Administration, Department of Health, Education, and Welfare.

swelled by payments from persons underwithheld in 1971 but will be held down by the net settlements from persons benefitting from the retroactive reductions in 1971 tax liabilities provided for in the 1971 Act. The new tax credit for investment and liberalized depreciation rules, also part of the Revenue Act of 1971, will lower net settlements in 1972 and 1973.

### Large advance in profits taxes

A net advance of \$7½ billion is projected in corporate tax liabilities.

An estimated fiscal 1973 revenue increase of over \$8 billion resulting from a sizable increase in profits is partly offset by a decline of nearly \$½ billion because of tax changes. The decline in liabilities largely reflects the new tax credit for investment in machinery and equipment and liberalized depreciation rules spelled out in the Revenue Act of 1971.

The estimated 1973 increase in profits tax liabilities appears to rest on the assumption that pretax profits will rise more than \$20 billion from fiscal 1972 to fiscal 1973. Excluding the new depreciation rules, which raise capital consumption allowances and lower profits in the national accounts, profits are projected to increase by a somewhat larger amount over the same period.

Indirect business tax and nontax accruals are estimated to increase about \$1 billion in fiscal 1973; they should decline \$½ billion in 1972, when the excise tax on automobiles and light

trucks was removed. Two tax changes affect fiscal 1973: a proposal to raise highway user charges, effective July 1, 1972, and a reduction in the telephone excise tax from 10 percent to 9 percent under present law, effective January 1, 1973. The import surcharge, which raises customs duties \$½ billion in fiscal 1972, is not a factor in 1973.

### Record increase in social insurance contributions

Social insurance contributions are expected to increase a record \$9½ billion in fiscal 1973, to over \$68 billion. The annual increase averaged about \$5 billion in 1971 and 1972. Nearly \$6½ billion of the 1973 increase is attributable to tax changes, with the remaining \$3 billion due to an anticipated increase in the dollar volume of payrolls covered by the social security system and other retirement and insurance programs.

Under existing law, the maximum earnings subject to the social security

tax increased from \$7,800 to \$9,000 on January 1, 1972. Proposed legislation would raise it to \$10,200, retroactive to the same date. These increases account for \$5 billion of the projected fiscal 1973 increase in contributions. Another \$1 billion is due to a projected increase in the combined social security tax rate from 10.4 percent to 10.8 percent on January 1, 1973. Under present law, the rate would go to 11.3 percent, but the administration is calling for a reduction to 10.8 percent. As shown in table 6, the payroll tax rate and the maximum wage base have increased substantially in the past few years.

The 1972 increases in the tax base would have their most pronounced effect on actual receipts in the second half of calendar 1972, as persons would reach the earnings maximum later in the year than they would with the lower base. However, on a seasonally adjusted basis in the national income accounts, the effect is to increase contributions about \$5 billion (annual rate) in the first quarter of calendar 1972.

### Fiscal 1973 Expenditures

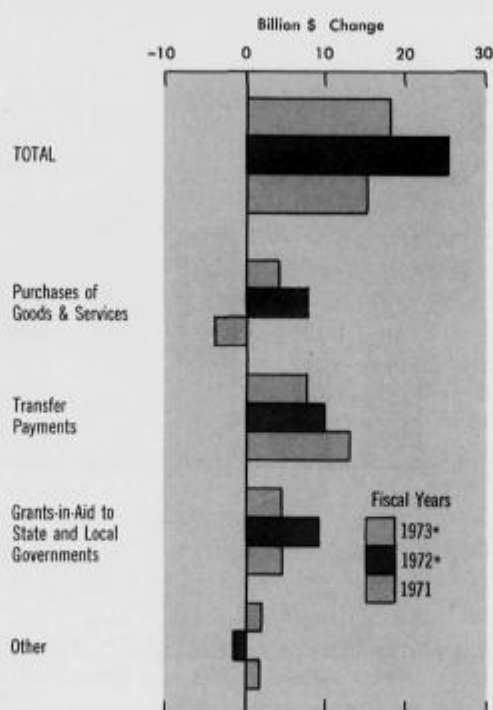
Federal expenditures as measured in the national income accounts are projected to increase by over \$18 billion in fiscal 1973, compared with a \$25½ billion advance forecast for the current fiscal year (table 3). Major gains are expected in 1973 in nearly all the expenditure categories. Personal transfers show the largest gain (\$7½ billion), followed by grants-in-aid (\$4½ billion), defense purchases (\$3¼ billion), and net interest (\$1½ billion).

### Upturn in defense

National defense purchases reached a peak of \$78 billion in fiscal 1969 and declined thereafter. They totaled \$73 billion in fiscal 1971 and are estimated to advanced very modestly in the current fiscal year to \$73½ billion, and to rise more sharply in 1973 to \$76½ billion.

Defense spending in the unified budget is projected to increase only \$¼ billion in 1973. Table 7 shows the functional detail of unified budget defense outlays, and a reconciliation of those

**Changes in Federal Government Expenditures (NIA Basis)**



\*Estimate by BEA

U.S. Department of Commerce, Bureau of Economic Analysis

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outlays to defense purchases on the NIA basis.

Increases in the compensation of military and civilian personnel have been a major factor in maintaining high levels of national defense purchases for many years (chart 12). This trend in compensation continues in fiscal 1972 and 1973. Pay raises for military and/or civilian personnel effective in November 1971 and January 1972, and proposed for July 1972 and January 1973, add a projected \$2½ billion to defense purchases in fiscal 1972 and \$5½ billion in 1973.

Excluding pay raises, nearly all components of national defense purchases are projected to decline or remain unchanged in fiscal 1973. Only the delivery of military hard goods shows a significant gain.

Military personnel costs, excluding pay raises, are expected to decline by over \$1¼ billion in 1973. It is estimated that by June 30, 1973, the level of military personnel will be below 2.4 million, only 34,000 below the level on

June 30, 1972 but down more than 160,000 from December 1971 and nearly 1.2 million from June 30, 1968.

There is no net change in purchases for operation and maintenance. Increases for improved personnel support services, all-volunteer force programs, and training activities, offset declines for combat support and for supply and maintenance activities. The pay of civilian personnel is mainly included in the operation and maintenance category. There is a reduction of only 5,000 in such personnel from June 1972 to June 1973, although the June 1973 level is estimated to be 55,000 below December 1971.

### Defense procurement

Purchases of military hard goods as recorded on a delivery basis in the National Income Accounts are expected to increase about \$2 billion in 1973. However, budget cash outlays for procurement drop nearly \$2 billion, largely reflecting completed buying of A-7 and F-4 aircraft. A part of the large difference between deliveries and outlays may be attributable to a new payments policy announced by the Department of Defense (DOD).

As of January 1, 1972, defense contractors will finance initially a larger share of work in progress than they have previously. In the past, the DOD has made payments to contractors for work in progress on the basis of costs incurred by the contractors. The evidence of costs incurred has been provided by vouchers presented by contractors, showing costs incurred by subcontractors or suppliers as well as costs incurred directly.

The new policy states that for all new contracts signed after January 1, 1972, the DOD will not reimburse contractors for costs incurred for purchases by them or for subcontract goods and services received by them until the contractors pay the suppliers or subcontractors. The new policy also states that all vouchers will be paid biweekly, instead of the accustomed weekly or, in some cases, daily basis.

### New obligational authority

An important indicator of future DOD spending, new obligational au-

thority (NOA), is estimated to increase more than \$6 billion in fiscal 1973 as compared to an increase of only about \$1 billion in unified budget outlays for DOD. Over \$4 billion of the NOA increase is for pay raises (including those related to the all-volunteer force); other increases are for procurement (\$1½ billion), research and development (over \$¼ billion), and military construction (\$¼ billion). All other NOA is to decline a net \$1 billion.

Along with the acceleration of many weapons programs included in NOA—particularly for an undersea long-range missile system and a fourth nuclear aircraft carrier—the new budget also appears to signal the end of large reductions in armed forces strength. The reductions in fiscal 1973 are modest compared with those of the recent past.

### Small gain in nondefense purchases

Nondefense purchases are estimated to show a very modest gain of \$¼ billion in fiscal 1973, following a record \$7½ billion advance projected for the current fiscal year. Much of the advance in 1973 is due to pay increases. Although

**Table 7.—Breakdown of National Defense Outlays in the Unified Budget, and Their Relationship to National Defense Purchases on the NIA Basis, Fiscal Years 1971-73**

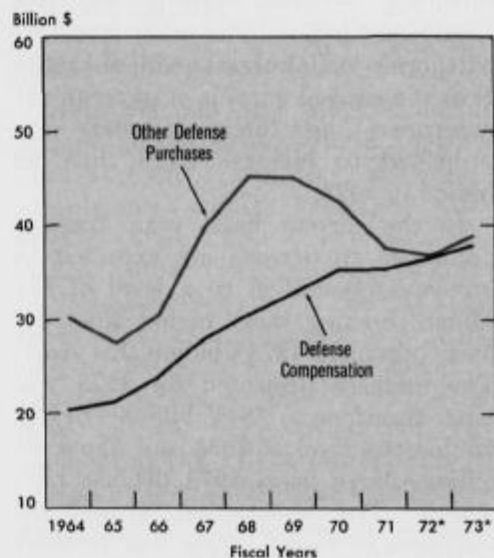
[Billions of dollars]			
	1971 actual	1972 estimate	1973 estimate
<b>Department of Defense, military.....</b>	<b>74.5</b>	<b>75.0</b>	<b>75.9</b>
Military personnel.....	22.6	21.1	18.9
Retired military personnel.....	3.4	3.9	4.3
Operation and maintenance.....	20.9	20.5	20.5
Procurement.....	18.9	17.9	16.1
Aircraft.....	6.6	6.6	5.1
Missiles.....	3.1	3.3	3.1
Ships.....	2.1	2.1	2.2
Vehicles and ordnance.....	4.1	3.6	3.0
Electronics and communications.....	1.2	1.0	.9
Other.....	1.7	1.4	1.8
Research, development, test, and evaluation.....	7.3	7.8	7.9
Other.....	1.4	1.4	1.4
Civilian and military pay increases.....		.8	2.5
All-volunteer force.....		1.5	2.8
Military retirement system reform.....			.5
<b>Military assistance.....</b>	<b>1.0</b>	<b>.8</b>	<b>.6</b>
<b>Atomic energy and other defense-related activities.....</b>	<b>2.1</b>	<b>2.2</b>	<b>1.8</b>
<b>Total unified budget outlays for national defense.....</b>	<b>77.7</b>	<b>78.0</b>	<b>78.3</b>
Less: Transfers, grants, interest.....	3.7	4.2	5.1
Timing differences and other adjustments.....	1.0	.5	-3.4
<b>Equals: National defense purchases, NIA.....</b>	<b>73.0</b>	<b>73.3</b>	<b>76.7</b>

Sources: "The Budget of the United States Government, 1973", U.S. Department of Defense, and BEA.

CHART 12

### Defense Purchases

Continued rise in compensation, upturn in other purchases



\*Estimate

Data: DOD-BEA

U.S. Department of Commerce, Bureau of Economic Analysis

72-2-12



purchases for the space program remain at their 1972 level of \$3 billion, the 1973 outlays include \$200 million for development of a reusable space shuttle, which could cost over \$6 billion by the time it makes its initial flight in 1978.

Agriculture spending is an important factor in the large 1972 gain. The advance is centered in the Commodity Credit Corporation (CCC), resulting from large calendar 1971 grain crops. In contrast to 1970, the growing season in 1971 was excellent, with little recurrence of corn blight. The CCC instituted a heavy corn purchase program, provided emergency loans for new-crop corn, extended the loan period on old grain, and extended corn loan eligibility to producers in storage-short areas. These efforts are expected to decline in fiscal 1973.

#### *Transfer payments surpass defense purchases*

Government expenditures affect aggregate demand not only directly, through purchases of goods and services, but also indirectly through outlays such as transfer payments, grants-in-aid, interest payments, and subsidies. Expenditures other than for purchases of goods and services are projected to increase about \$17½ billion in the current fiscal year and by over \$14 billion in 1973. Transfer payments, spurred by an increase in social security benefits, will rise \$7½ billion in 1973. Grants to State and local governments, including revenue sharing, will rise nearly \$4½ billion. The other spending categories—net interest paid, subsidies (less the current surplus of government enterprises), and foreign transfers—are projected to increase more than \$2 billion in 1973.

In the current fiscal year, transfer payments to persons are expected to increase \$9½ billion to a level of \$77 billion, making them higher than defense purchases (\$73½ billion this year). The increase projected for 1973 will raise transfers to \$84½ billion—nearly double the level of 1968 and about \$8 billion above fiscal 1973 defense purchases. The substantial growth of transfers in recent years has resulted from the introduction of new programs, such as medicare, as well as higher

average benefits and a continuously growing number of beneficiaries in existing programs. In fiscal 1972, extended unemployment benefits are also a factor contributing to the rise of transfers.

Social security benefits (excluding medicare) account for more than \$5½ billion of the 1973 advance, with over \$2 billion resulting from a proposal to increase benefits by 5 percent for over 28 million beneficiaries, effective June 30, 1972. In addition to increasing benefits, the proposal would: (1) bring widows' benefits up to the amount their deceased husbands would have received (adding over \$½ billion in 1973); (2) allow beneficiaries to earn more without a reduction in benefits, effective January 1973 (\$½ billion); and (3) make other changes, such as automatic benefit increases with rises in the cost of living (about \$½ billion). Hospital and medical payments under the medicare program are projected to rise nearly \$1½ billion next year to slightly less than \$10 billion, double the 1968 level. Included in this increase is \$½ billion for the extension of these payments (effective January 1973) to disabled persons under 65 years of age.

Unemployment benefits under State programs are projected to decline \$1½ billion in fiscal 1973, to somewhat above \$5½ billion, after rising to \$6½ billion in 1972. The Employment Security Amendments of 1970 provided for extended benefits, beginning in January 1972, to workers who have exhausted their regular benefits. These workers will receive up to 13 weeks of additional benefits until the national insured unemployment rate has dropped below 4½ percent. The 1970 amendments also extended coverage to nearly 9 million additional workers, bringing the total number covered by Federal and State laws to more than 62 million. In addition, Congress enacted in December 1971 a 6-month program to provide temporary benefits of a further 13 weeks to unemployed workers in States where the insured unemployment rate is 6½ percent or more.

Other transfer payments are estimated to advance \$2 billion in fiscal 1973 with the largest increases ex-

pected in military retirement and veterans benefits (\$1½ billion), Federal civilian retirement (\$½ billion), and food stamps (\$½ billion). The large gain in military and veterans payments results from proposals to reform the military retirement system and to adjust average benefits for cost of living increases. Recent legislation has revamped the veterans pension system; benefits were increased in January 1972. The 1971 Amendments to the Food Stamp Act, and other changes, significantly increased benefits and allowed free stamps for the poorest beneficiaries. Some 13½ million persons will be receiving food stamp assistance by the end of 1973, four times the number in July 1969.

The 1973 budget makes no provision for transfer payment increases as a result of welfare reform, but it does include funds for planning costs. Proposed legislation would initiate family assistance payments in fiscal 1974, including a minimum standard benefit of \$2,400 for a family of four with no income, and \$195 a month for an aged, blind, or disabled couple.

#### *Grants continue to advance*

Continued growth of grants-in-aid is projected for fiscal 1973. The expected increase is about \$4½ billion, far smaller than the surge of more than \$9 billion expected in the current fiscal year. The unusually large gain projected for 1972 is the result of several factors, including: (1) the proposed introduction of general revenue sharing, retroactive to January 1, (2) an advance payment of public assistance grants, (3) increases in such programs as environmental protection and law enforcement, and (4) large grants under the new Emergency Employment Assistance Act, which will last two years and provide State and local governments with nearly \$2 billion to create about 150,000 public service jobs.

Grants for public assistance, including Medicaid, are estimated to decline \$1½ billion in 1973 after advancing \$3½ billion in the current fiscal year. This results from two major factors: (1) a shift of \$1 billion from 1973 to 1972, designed to ease the fiscal pressure on

states caused by mounting costs, and (2) a series of reforms in the public assistance system. The reforms, which will lower grants in fiscal 1973, include: (1) the implementation of new regulations defining reimbursable costs and improved accounting systems, (2) improved control and management of state payments systems, and (3) proposed legislation emphasizing greater cost effectiveness. It is also expected that higher social security benefits and the extension of medicare benefits to the disabled will lower public assistance payments.

Education grants (excluding special revenue sharing) are projected to advance about \$½ billion in 1973, to a total of more than \$4 billion. Most of this advance is in emergency school assistance to aid State and local governments in meeting the problems of desegregation and "racially impacted" school districts. Grants for higher education activities are expected to decline, but are being supplanted by transfers and loans.

The budget once again includes the administration's proposal for general revenue sharing effective in early 1972, retroactive to January. The proposal would boost grants \$2½ billion in fiscal 1972 and \$5 billion in 1973. In addition, special revenue sharing is proposed for six broad-purpose programs—education, law enforcement, manpower training, transportation, rural development, and urban community development. The effective date for two of these programs—education and urban development—would be July 1, 1972, adding more than \$½ billion to 1973 grants.

The remaining increase in grants for 1973, about \$2½ billion altogether, is spread among a wide variety of programs, principally for environmental protection, model cities, and emergency employment assistance. Grants under the latter program, which was initiated in fiscal 1972, amount to over \$½ billion this year and are estimated to increase to more than \$1 billion in fiscal 1973. Highway grants are expected to increase about \$½ billion in 1973 to \$4.8 billion.

### Large deficits increase interest payments

Net interest paid is projected to increase nearly \$1½ billion in 1973 compared to an estimated decline of over \$½ billion in the current fiscal year. This large increase is primarily the result of large budget deficits. The new budget estimates that debt held by the public (including the Federal Reserve System) will increase \$39½ billion in fiscal 1972 and \$27½ billion in 1973, compared to an increase of slightly less than \$19½ billion in fiscal 1971.

Subsidies (less the current surplus of government enterprises) are expected to increase over \$½ billion in 1973. Payments to farmers would increase about \$1 billion. Partly offsetting this advance is a smaller deficit for the new Postal System—about \$1 billion as compared to over \$1½ billion in the current year. Postal rate increases, effective January 1973, would more than offset pay raises for Postal workers scheduled in July 1972 and January 1973. Housing subsidies are expected to increase \$½ billion.

### Budget-NIA Reconciliation

The differences between the unified budget and the NIA Federal sector can be summarized in the following major categories: (1) coverage; (2) the treatment of financial transactions; (3) net-

ting and grossing; (4) timing; (5) land transactions; and (6) miscellaneous. Table 8 shows a summary reconciliation of Federal receipts and outlays as recorded in the unified budget and in the national income accounts.

#### Coverage

The unified budget includes receipts and expenditures associated with various territories and possessions—such as the Virgin Islands, Puerto Rico, and Guam—that are excluded from the NIA Federal sector. An adjustment is made to both receipts and expenditures for these transactions. Adjustment is also made for various deposit fund transactions which are excluded from the budget but included in the NIA measure. In recent years, the major deposit fund adjustment has involved royalties received from Louisiana offshore oil leases. Because of a dispute over the ownership of these royalties, the Federal Government put the annual payments in an escrow account. A recent Supreme Court order awarded over \$1 billion of these funds to the Federal Government, and the unified budget records the transfer as an offset to 1973 expenditures. However, over the years, the NIA has recorded the annual royalty payments as business non-tax receipts, necessitating an adjustment from the budget basis to the NIA basis. In 1973, an adjustment is necessary in order to offset the negative impact of these payments on budget expenditures.

#### Financial transactions

Most Federal loans are included in unified budget outlays in a separate "loan account." In addition, the budget records most foreign loans and those domestic loans whose repayment is contingent rather than mandatory in the "expenditure account." The NIA excludes all loans except most CCC price-support loans, which are recorded as Federal purchases and as a part of farm income. Loan transactions excluded from the NIA but included in the unified budget are estimated to be over \$1½ billion in 1973. Also in the category of financial transactions is an adjust-

Table 8.—Relationship of Federal Government Receipts and Expenditures in the National Income Accounts to the Unified Budget, Fiscal Years 1971-73

(Billions of dollars)			
	1971	1972	1973
<b>Receipts</b>			
Unified budget receipts.....	188.4	187.8	229.6
Coverage differences.....	—	—	—
Netting and grossing.....	4.0	4.7	5.2
Timing differences.....	1.1	—	2.6
Miscellaneous.....	—	—	—
Federal receipts, NIA basis.....	194.0	202.8	237.9
<b>Expenditures</b>			
Unified budget outlays.....	211.4	224.1	246.3
Coverage differences.....	—	—	—
Financial transactions.....	—3.4	—2.1	—1.3
Net purchases of land.....	—	—	—
Netting and grossing.....	4.0	4.7	5.2
Timing differences.....	—	—	—
Miscellaneous.....	—	—	—
Federal expenditures, NIA basis.....	212.4	227.5	256.9

Source: Estimates by the Office of Management and Budget and BEA.

(Continued on page 22)